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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Enhance the
Role of Demand Response in Meeting the
State's Resource Planning Needs and
Operational Requirements.

Rulemaking 13-09-011

**REPLY COMMENTS OF
THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION**

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September 26, 2016

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Pursuant to Rule 14.3 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, the California Large Energy Consumers Association (CLECA) submits these reply comments to certain opening comments on the Proposed Decision (PD) of Administrative Law Judge Hymes. CLECA continues to support adoption of the PD with the modifications recommended in CLECA's opening comments, and offers these reply comments to clarify the record and the issues.

I. THE PD SHOULD BE REVISED TO GUARD AGAINST THE RISK OF GAMING OF BIDS IN THE DEMAND RESPONSE AUCTION MECHANISM

CLECA raised a concern about the PD's directive that the utilities accept all "complying bids up to the simple average August capacity bid price" in the Demand Response Auction Mechanism (DRAM).¹ Other parties raised similar concerns.² This concern must be addressed in the final decision, especially with the contemplated amount of procurement (one gigawatt statewide) through the DRAM. CLECA strongly recommends use of the recently updated and approved avoided cost calculator and the Total Resource Cost Test to determine the cost effectiveness of the DRAM bids; the

¹ CLECA Opening Comments, at 6 (citing the PD, at 68).

² ORA Opening Comments, at 6; TURN Opening Comments, at 5; SCE Opening Comments, at 6-7; PG&E Opening Comments, at 8-9.

level of bid that achieves a benefit-cost ratio of at least 1.0, including all factors, should be used to evaluate all the DRAM bids and eliminate outlier bids.³ If a bid is 15% above the level of bid that achieves a benefit-cost ratio of at least 1.0, it should be rejected and not included in the calculation of the average August capacity bid price. The final decision should address the timing of the release of the annual cost effectiveness test updates; this approach would reduce the gaming risk and cap it.

II. THE ROLE OF THE UTILITY SHOULD BE DETERMINED BY CUSTOMERS AND THE MARKET

ORA suggests a new ordering paragraph to reduce the role of the utility in demand response; other parties similarly sought diminution or elimination of the utility role.⁴ CLECA disagrees; the PD's clear determination that customer choice is vital for demand response programs rightly leads to the conclusion that:

...it is the customers who should determine what role the Utilities will play in the future, through their selections from the various options ... provided.⁵

This customer and market orientation is critical. The parties critiquing this aspect of the PD do not and cannot refute the fact that demand response is in transition. The PD is correct: it is "reasonable to continue both roles of the Utilities as demand response providers (implementers) and administrators."⁶ Customers should be able to choose their demand response provider and the "principle of market-driven demand response with a focus on competition"⁷ should include the utilities as well as third party demand response providers. This aspect of the PD should not be changed.

³ D. 16-06-007, at 12 ("We adopt the practice of estimating avoided generation capacity costs by using long-term costs only (of building generation) rather than both short-term costs (based on resource adequacy prices) and long-term costs.").

⁴ ORA Comments, at 6; *see also* CESA Comments, at 3-4; *see also* CEEIC Comments, at 7-8.

⁵ PD, at 48.

⁶ PD, at 52.

⁷ PD, at 52.

III. THE DRAM'S TRANSITION FROM PILOT TO PROGRAM SHOULD NOT BE ACCELERATED NOR SHOULD ITS 1 GIGAWATT SIZE BE DOUBLED

OhmConnect seeks an acceleration of the PD's timeline for an evaluation of the DRAM.⁸ TURN seeks a doubling of the DRAM's procurement target from one gigawatt to two gigawatts.⁹ Both of these proposed changes to the PD should be rejected. Each of the DRAM Pilots is different, in terms of delivery periods and products. The 2016 DRAM only procured system Resource Adequacy with associated Proxy Demand Response (PDR) being bid into the California Independent System Operator from June to December 2016. The 2017 DRAM included both system and local Resource Adequacy with either a PDR resource or a Reliability Demand Response Resource (RDRR) being bid into the CAISO market from January to December 2017. The 2018 DRAM includes the possibility of a two year term, with deliveries in 2018 and 2019 and expands the products to include flexible resource adequacy. Without an evaluation of all three pilots, including how the different products performed in the wholesale market, the record on the effectiveness of the DRAM as a procurement mechanism will be incomplete. OhmConnect's proposed acceleration of the timeline would wrongly inhibit the evaluation, as it would limit the information necessary for the evaluation.

TURN's proposed doubling of the DRAM target should be rejected for several reasons. First, TURN proposes it to enable third-party demand response providers to remove customers from the existing utility demand response programs,¹⁰ but the DRAM is intended to *expand* demand response, not cannibalize existing programs.¹¹

⁸ OhmConnect Comments, at 3.

⁹ TURN Comments, at 6.

¹⁰ TURN Comments, at 6.

¹¹ See D. 14-12-024, at 62 and 70 ("we want to ensure that all current demand response

Moreover, the PD rightly recognizes that the DRAM must be evaluated prior to its expansion from a pilot into a program, and reasonable questions have been raised regarding the 1 gigawatt size,¹² not to mention the concerns over the gaming risk and implications for ratepayer costs discussed above. Second, TURN's position fails to recognize the different penalty structures associated with the DRAM and the Base Interruptible Program (BIP) – one of TURN's targets. BIP is being integrated by the utilities into the CAISO market as RDRR, and it has severe penalties imposed by the utilities for non-performance by customers.¹³ BIP is a proven, successful program that has contributed for decades to the reliability of the grid; it is being integrated by the utilities as supply side demand response. It is not known – and indeed cannot yet be known - if the DRAM resources that are RDRR can and will perform as well. It is simply too soon to double the DRAM to two gigawatts.

Parties, including CLECA, also called for clarification on the sufficiency of available Rule 24 registrations.¹⁴ This should be addressed in the final decision.

IV. THE DEFAULT ADJUSTMENT DOES NOT REQUIRE A METER

ORA implies that a meter is required for the default adjustment option in connection with the PD's treatment of prohibited resources.¹⁵ This is not accurate; a default adjustment to the incentive to account for the prohibited resource ensures that that prohibited resource is not included in any demand response incentive payment.

megawatts continue to be available in the future ... using DRAM to mount a collateral attack on one demand response program is inappropriate”).

¹² See *generally* SDG&E Opening Comments.

¹³ See CLECA Comments on May 20, 2016 ALJ Ruling, at 24; see *also* PG&E Comments on May 20, 2016 ALJ Ruling at 3, 15 and 26; see *also* CLECA Reply Comments on May 20, 2016 ALJ Ruling, at 3-4.

¹⁴ See, e.g., PG&E Opening Comments, at 10.

¹⁵ ORA Comments, at 4.

There is simply no need for a meter with the default adjustment. It must be recognized that industrial sites vary, and the ability to meter – and wire – facilities will vary based on the site. CLECA reiterates its appreciation of the inclusion of the default adjustment, which does *not* need metering, and this should not be changed.

V. ADDITIONAL REPLIES

CLECA supports SCE's request for one additional month for the utility applications for the 2018-2022 period. This is a reasonable request and would ideally allow all utilities to incorporate the lessons learned from the experiences of those entities who have integrated demand response into CAISO markets, assuming the recommended workshop on integration takes place this fall.

CLECA also supports the Joint Demand Response Parties' recommended changes in connection with the description of prohibited resources.¹⁶ These changes can and should be made in conjunction with CLECA's recommended changes.

VI. CONCLUSION

CLECA appreciates this opportunity to provide reply comments and continues to support the PD's adoption with the modifications detailed in our opening comments.

Respectfully submitted,



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¹⁶ Joint Demand Response Parties Opening Comments, at 4-5.